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Monday 9 January 1978

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National Intelligence Daily Cable for Monday, 9 January 1978

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FRANCE: Communists Spurn Accord

The French Communist Party's decision not to conclude an electoral accord with the Socialists, announced at the party's convention over the weekend, further reduces the Left's chances for a victory in the legislative election in March. Communist leader Georges Marchais left open the possibility that his party might sign an agreement for the second round of the two-round election to be held 12 and 19 March if his party showed enough strength in the first round.

The Communist Party is clearly more concerned about rebalancing the forces on the Left and consolidating and expanding its own electorate than it is about winning the election. An electoral accord signed now, followed by two months of a show of unity, might have reassured voters disenchanted by the Left's squabbling and could even have attracted some of the large number of undecided voters, for there is still a strong desire for change in France. "Twenty years (of center-right government) is enough" is still the Left's most persuasive slogan.

The Communists, however, are willing to risk electoral defeat and a reduced parliamentary representation in order to cut the Socialists down to a more manageable size and possibly cause the removal of their popular leader, Francois Mitterrand. The Communists are aware that their behavior since the breakdown of the Left alliance last September has stirred up latent anti-Communism among the Socialist electorate and that more than half of the Socialist voters now say they will not shift their votes to better placed Communist candidates on the second round. This percentage can be expected to increase as the Communists continue their polemics against their former Socialist allies in the time that remains before the election.

The Communists have repeatedly said that they do not want to participate in a Left government that will just "manage" the economic crisis, and that they want rapid, profound

reforms. They fear being a junior partner in a government that might be forced to continue an austerity policy that is anathema to the party's working class electorate.

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[] A national poll of voting intentions in mid-December showed that leftist losses are still not being translated into rightist gains. The poll showed the Left at 50 percent (Socialists and Left Radicals 27, Communists 21, extreme left 2), the Ecologists at 3 percent, and the Center-Right at 47 percent (Gaullists 22, Giscardians 18, Centrists 7). Because of the vagaries of the electoral system and uncertainty about voter discipline on the Left, these percentages, if actually translated into votes, would probably give the governing coalition a victory, but that outcome is by no means assured.

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[] The question of what the balance of forces will be on each side of the political spectrum is becoming almost as important as who wins the election. As of now it looks as if the Socialists will continue to dominate the Left by a significant margin, and the Gaullists will probably do likewise among the centrists and rightists. There may be further shifting among the latter parties, however, as President Giscard is as determined to rebalance the center-right to the disadvantage of the Gaullists as Marchais is to redistribute strength among the leftist parties.

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[] The election is likely to be close. A slim victory for the center-right, involving a reduced majority and Gaullist dominance, will not give France the strong, unified government it needs to tackle its economic troubles and institute needed social and structural reforms. A slim victory for a divided Left would probably produce an even more weak and impotent government. []

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PERU: USSR Postpones Repayment

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[] //The USSR has agreed to postpone for one year Peru's \$79 million debt due in 1978. The concession significantly eases Peru's current foreign payments crunch. Lima, however, must still live up to the stringent conditions of the International Monetary Fund standby loan agreed on in November if it is to obtain balance-of-payments support from commercial banks. It needs this support in order to avoid further debt re-scheduling, a 25-percent import cut, or default.//

25X1 [redacted] //The Soviets apparently had earlier declined to extend the time period for the debt. After a plea from President Morales Bermudez, however, they agreed to grant repayment concessions. [redacted]

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25X1 [redacted]

25X1 [redacted] //Even with the Soviet postponement, Peru still needs \$300 million to close an estimated \$1.2 billion financial gap (current account deficit plus amortization) this year and to make a start at rebuilding depleted foreign exchange reserves. Commercial banks had demanded the Soviet debt moratorium as a prerequisite to balance-of-payments support.//

25X1 [redacted] //If Peru complies with the terms of the IMF standby loan through March, a consortium of US banks may at that time be willing to provide \$200 million. Commercial banks in Canada, Western Europe, and Japan probably would follow with additional funds.//

25X1 [redacted] //Because of the harsh impact of the austerity measures required by the IMF standby arrangement, Peru's full compliance may not be politically feasible. We see tight domestic credit control severely squeezing business, with slow

domestic sales and sluggish investment. IMF-dictated price increases for gasoline, required before 15 January, and for food later in the year could bring a repetition of the widespread student and worker unrest of last summer.//

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[REDACTED] //Domestic unrest would deny Morales Bermudez a period of economic peace and political stability that he says is needed to allow the promised return to civilian government.

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PANAMA: Anniversary of Riots

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[REDACTED] Panamanian authorities would like to use today's commemoration of the 1964 anti-US riots to show that there is strong support in Panama for US approval of the canal treaties. Student marches and brief incursions into the Zone by demonstrators are a distinct possibility. Chief of Government Torrijos' desire to present a statesmanlike image, however, militates against any serious anti-US violence.

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[REDACTED] The government-directed women's march into the Zone on 12 December in support of US ratification of the treaties also had organizational problems, resulting in a turnout of less than 1,000. Like that march, today's demonstration will make US ratification a focal point of Panamanian demands.

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[REDACTED] Although Torrijos wants a good showing for today's commemoration, he does not want unplanned incidents to upset his strategy for dealing with the US, which currently centers

for the most part on projecting a responsible image. The National Guard therefore will countenance and even promote a demonstration in the Zone, but will carefully monitor it to guard against violence.

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EAST GERMANY - NORTH KOREA: Frictions

[Redacted] East German party and state leader Honecker, who visited North Korea and some other East Asian countries last month, apparently had even more trouble with his hosts in Pyongyang than was reported earlier.

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[redacted] The joint communique and speeches by Honecker and Kim at a rally reflected several differences:

- Neither made any mention of "complete agreement" or full identity of views.
- The North Korean news agency's version of Honecker's speech omitted his numerous references to the Soviet Union, which were reported by the East German party daily.
- The two leaders apparently could not agree on how to refer in the communique to the presence of US troops in South Korea. Kim wanted to brand the US as an aggressor because of the troops and criticize Washington for protecting South Korea and South Africa despite their human rights violations, but Honecker disagreed. The communique simply referred to "foreign troops present in South Korea" and omitted references to human rights.

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[REDACTED] //Kim criticized the role of US forces in South Korea during his speech at the rally, but his condemnation was milder than past North Korean statements on the subject. His tone has been less shrill since the US announcement to withdraw troops from South Korea.//

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BRAZIL: General Figueiredo

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[REDACTED] *Brazilian President Geisel's selection of General Joao Baptista Figueiredo as his choice to succeed to the presidency in March 1979 raises to sudden international prominence a man about whom little is known outside Brazil. Geisel did not give his reasons for selecting the 59-year-old intelligence chief over other more senior and seemingly more qualified generals.*

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[REDACTED] Although Figueiredo lacks four-star rank and field-command experience, he does have some impressive credentials:

- He was an original member of the military group that deposed civilian President Goulart in 1964, which gives him impeccable "revolutionary" credentials in the military.
- He was largely responsible for building Brazil's National Intelligence Service into a highly professional organization.
- He served in former President Medici's cabinet and reportedly was one of Medici's closest advisers.
- He is from a prominent military family and has strong political ties in Sao Paulo, Brazil's economic center.

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[REDACTED]
[REDACTED] He is strongly anti-Communist but is expected to continue most of Brazil's pragmatic diplomatic policies. He has indicated he has some reservations about the current administration's reliance on West Germany for nuclear technology.

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[REDACTED] There is some opposition in the military to the way Geisel has handled Figueiredo's candidacy, which could conceivably lead to a confrontation between the President and the military high command. Figueiredo seems assured of the job, however, by the mere fact of Geisel's endorsement. Geisel is not usually given to retreat or compromise once he has made an important decision. [REDACTED]

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Poland

[] The Polish party today begins a two-day conference, during which it will ostensibly set the country's political and economic course for the next two years.

[] Some knowledgeable Poles believe that party leader Gierek must make significant changes in economic policy in order to ease the country's economic woes. The party, however, is apparently divided along "conservative-liberal" lines, particularly over the issue of economic reforms; these divisions make it more difficult for Gierek to come out unequivocally either for or against structural changes. Gierek has not demonstrated that he himself is committed to sweeping economic reforms.

[] Gierek may want to show new movement by making some important personnel shifts. The Minister of Agriculture and a key Deputy Premier have already been dismissed. Several others who are directly responsible for economic affairs could be in trouble. The fate of Premier Jaroszewicz, who has long been rumored on his way out, may be clarified, although he would present his resignation to the Parliament and not to this conference. []

France

[] Prime Minister Barre this weekend announced his government's "action objectives" for the new legislature that will follow the March election. The program emphasizes individual rights and a free enterprise economy. Barre proposed an economic package that includes a two-year freeze on taxes and social security charges, special concessions for firms taking on young employees, and a 50-percent reduction in state subsidies for businesses over five years old. He said there would be no big increase in minimum wages, but he promised to narrow salary differentials.

[] In an effort to attract opposition voters, Barre also promised special efforts to keep family allowances ahead of the

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cost of living, more financial help for old people with scant resources, and measures to encourage families to buy their own homes and set up small businesses. [REDACTED]

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Pakistan

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[REDACTED] Demonstrations in Pakistan on Wednesday generally failed to show much popular support for former Prime Minister Bhutto and may even have aggravated divisions within his party. The party's left-leaning faction, currently headed by Bhutto's wife, had hoped the demonstrations would prompt the military government to release Bhutto from jail and to hold a new election.

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[REDACTED] Bhutto's party is claiming some success in rural areas of his home province, but in most cities only a few hundred people took part in the demonstrations. The government had declared the demonstrations illegal and made clear that it would use force to control the situation. It arrested about 100 party leaders prior to the demonstrations, which presumably contributed to the poor showing.

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